

## ECB's Draghi says euro zone at risk of lasting economic damage

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Europe is at risk of suffering lasting economic damage from weak productivity and low growth, the European Central Bank's president warned on Thursday, underscoring his argument that monetary policy alone cannot end the bloc's economic malady.

The ECB has been easing policy aggressively to boost growth and inflation in recent years with little to show for its efforts, fuelling arguments that monetary policy was at its limits and governments needed to help out.

"We do not let inflation undershoot our objective for longer than is avoidable given the nature of the shocks we face," Mario Draghi told the Brussels Economic Forum. "For others, it means devoting every effort to ensuring that output is returned to potential before subpar growth causes lasting damage."

"There are many understandable political reasons to delay structural reform, but there are few good economic ones. The cost of delay is simply too high," he added.

The euro zone grew by just 1.6 per cent last year with much of the expansion coming from the ECB's stimulus and growth is expected to flatline over the next several years with inflation also holding below the ECB's target of close to 2 per cent.

Draghi said growing below potential for too long actually reduced the economy's potency because instead of output rising towards capacity, potential would fall towards the actual output, permanently embedding low growth.

"Given the harm that has already occurred to potential growth during the crisis, it also means (a need for) acting decisively to raise potential," Draghi said.

Singling out areas for improvement, Draghi said the euro zone was lagging behind in innovative capacity, particularly in the services sector, and needed to utilise the latent potential in the euro area labour force, which can be unleashed with appropriate labour market and activation policies.